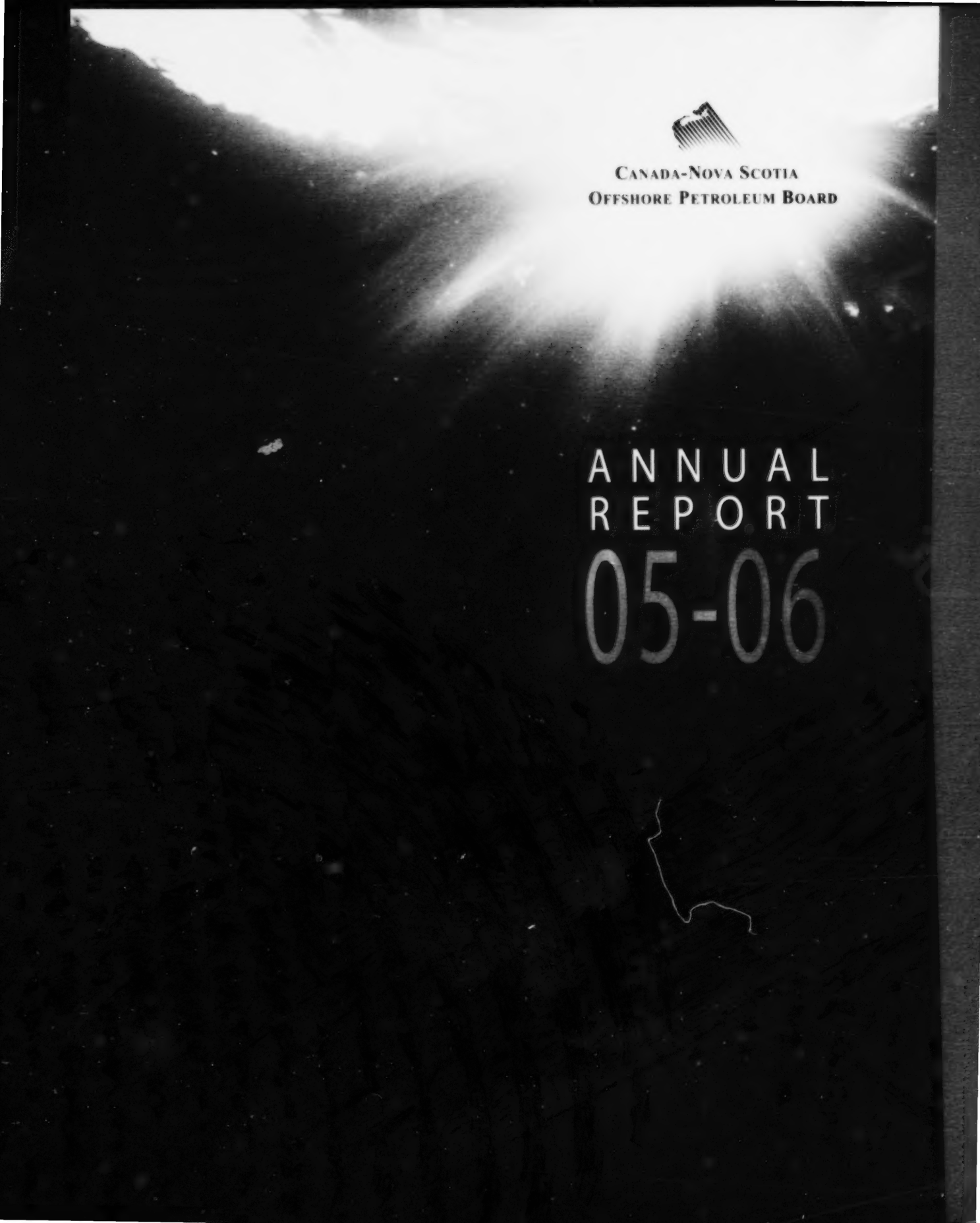
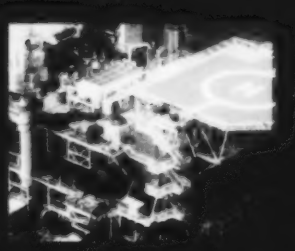


CANADA-NOVA SCOTIA
OFFSHORE PETROLEUM BOARD

ANNUAL REPORT 05-06

“ I am pleased to submit the Annual Report, including the financial statements of the Canada-Nova Scotia Offshore Petroleum Board, for the fiscal year ending March 31, 2006. ”



2008-01137/

Annual Report

June 15, 2006

The Honourable Bill Dooks
Minister of Energy
Government of Nova Scotia
Suite 400, Bank of Montreal Building
5151 George Street
Halifax, Nova Scotia
B3J 1M5

The Honourable Gary Lunn
Minister of Natural Resources Canada
Government of Canada
580 Booth Street, 21st Floor
Ottawa, Ontario
K1A 0E4

Dear Ministers:

In accordance with the provisions of the legislation implementing the Canada-Nova Scotia Offshore Petroleum Resources Accord, I am pleased to submit the Annual Report, including the financial statements of the Canada-Nova Scotia Offshore Petroleum Board, for the fiscal year ending March 31, 2006.

Respectfully submitted,

Diana Lee Dalton

Diana Lee Dalton
Chair

C-GSAB
CHC

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Report from the Chair & the Chief Executive Officer

We are pleased once again to report to you on the activities of the Canada-Nova Scotia Offshore Petroleum Board. In 2005-06 the exploration level offshore Nova Scotia declined somewhat from previous years. Understanding the cyclical nature of offshore exploration, the Board is reviewing lessons learned from past practices and working with all stakeholders to ensure an effective and responsive regulatory system for today, and for the future.

The Board Members and a professional, dedicated staff are working with the Province of Nova Scotia, Natural Resources Canada, the Department of Fisheries and Oceans, Environment Canada and other departments and agencies to develop policies for the most effective and efficient regulatory process possible.

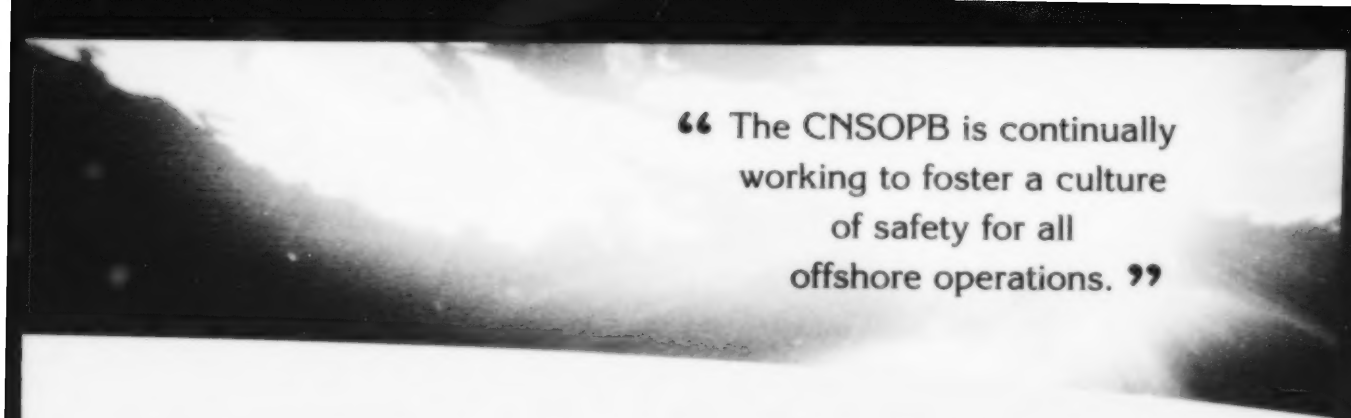
It has been said that exploring an offshore frontier like Nova Scotia is akin to putting together a puzzle without knowing what the picture looks like. The Board is striving to connect explorers with the data they need to solve that puzzle.

To this end, the Board is seeking government approval for an expansion of its core lab and data management centre in Dartmouth. The Board's current system for managing petroleum data requires updating to bring it in line with international standards and practices. A good digital data management system is essential to properly manage oil and gas resources, particularly in a high cost environment such as offshore Eastern Canada.

As for the resources awaiting discovery, the Board remains confident in the geological assessments pointing to vast hydrocarbon potential in several possible areas. As energy prices climb and stable supplies for the North American market become more appealing, offshore Nova Scotia will command a favourable strategic position.

One of the Board's primary responsibilities is hydrocarbon resource assessment. These assessments help to determine the potential volume of oil and gas discovered to date, plus undiscovered potential reserves. In June 2005, the Board released a comprehensive geological and geophysical assessment of the Jurassic Age Abenaki reef trend along the edge of the current continental margin offshore Nova Scotia. This past October the Board began a detailed post-drill review of recent and historical deepwater drilling, which was completed at the end of this fiscal year. A report on this work will be released in the coming months.

The Board is also working on an internal resource assessment of the Sable Subbasin. This area, surrounding Sable Island, covers approximately 11,000 square kilometres. The results of these assessments are used to further the Board's understanding of the hydrocarbon



> “ The CNSOPB is continually working to foster a culture of safety for all offshore operations. ”

potential offshore Nova Scotia and are incorporated into decisions made pertaining to activities and the issuance of petroleum rights.

Issues relating to environment, health and safety are central to the ongoing activities of the Board. Memoranda of Understanding now in place with other government departments and agencies, such as the Nova Scotia Department of Environment and Labour, Environment Canada and the Department of Fisheries and Oceans, ensure the regulatory process avoids overlap and duplication while providing the protection for workers and the environment. The CNSOPB is continually working to foster a culture of safety for all offshore operations. In this respect, the Board has links with the International Regulators Forum (IRF) to share safety data and ensure our region meets or surpasses the best global practices for industry operations.

This year, the Board undertook a Strategic Environmental Assessment (SEA) of the Misaine Bank offshore Cape Breton. After a study and extensive public consultation, the findings of the SEA determined that while the area is less affected by previous activity (such as fish trawling) it is no more sensitive to the potential effects of offshore exploration than other areas of the offshore where activities are conducted. Therefore, the Board has determined that applications may be made for oil and gas activities.

Although offshore exploration activities may be down, 2006-2007 is shaping up to be a busy year for other activities. ExxonMobil's Compression Deck installation is expected to begin this spring. This is a major infrastructure project involving many Nova Scotian and Canadian supply and service companies.

In addition, the Board continues to prepare for, and expect, filing of an application for the development of the Deep Panuke project.

In the following pages you will see a detailed overview of the Board's activities for the 2005-06 fiscal year. As required by the Accord Acts, this report also contains Financial Statements and an Auditors report on the Board's finances.

Diana L. Dalton
Chair

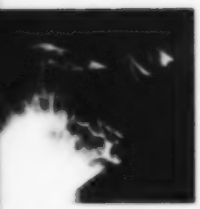
J.E. (Jim) Dickey
Chief Executive Officer

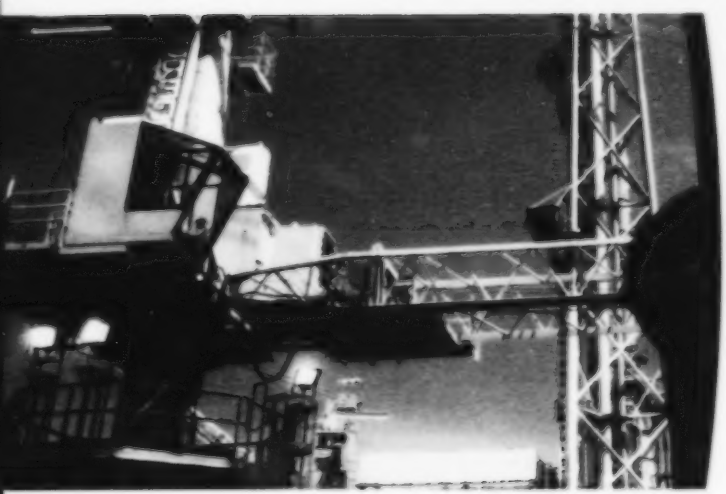
Health, Safety & Operations

1.1 Health & Safety

The CNSOPB's Health, Safety and Operations section is a key aspect of the regulator's responsibility. Work conducted in an often challenging and dangerous offshore environment must be done properly and with safety as a foremost consideration. The Board is very proud of the safety record offshore Nova Scotia.

Provincial and federal governments continue to finalize proposed amendments to the Accord Acts regarding offshore occupational health and safety. While this process continues, the Board's Occupational Health & Safety (OHS) Requirements remain in place to provide protection for offshore petroleum workers and direction to the operators. The Board's OHS Requirements are a condition of all activities authorized by the Board.





1.2 Incident Reports

Operators are required to report to the Board any occurrence of hazardous incidents at their offshore work locations, in accordance with defined criteria. In each case, the Board verified that appropriate action was taken by operators to understand the causes of the incidents, and take the necessary actions to prevent their recurrence.

Operators are also required to provide summary-level reporting of all safety and health related incidents that occur in the offshore on an annual basis. The Board reviews this information, as well as information from other independent sources, to determine possible trends and commonalities and identify specific target areas for improvement.

1.3 Injury Statistics

In the 2005 calendar year, there were 811,181 person hours worked under Board authority in the Nova Scotia offshore area. During that period, there were 2 disabling injuries reported. Based on this data, the frequency rate for disabling injuries in the Nova Scotia offshore area for 2005 was 0.49 per 200,000 person hours (see Figure 1).

1.4 Monitoring

Each day, Operators submit reports which are reviewed by Board staff to identify health, safety and compliance issues. Appropriate actions are taken to assure that

> “ The CNSOPB’s Health, Safety and Operations section is a key aspect of the regulator’s responsibility. ”

Figure 1 – Injury Statistics

Year	2001	2002 **	2003	2004	2005	Average
Number of Disabling Injuries *						
Installations	3	8	3	5	1	4
Vessels	1	7	5	3	1	3.4
Aviation	0	0	0	0	0	0
Total	**4**	**15**	**8**	**8**	**2**	**7.4**
Person Hours						
Installations	899,244	1,253,779	899,260	839,526	601,669	898,696
Vessels	720,312	868,105	960,609	785,857	163,877	699,752
Aviation	82,660	94,413	57,004	66,907	45,635	69,324
Total	**1,702,216**	**2,216,297**	**1,916,873**	**1,692,290**	**811,181**	**1,667,771**
Frequency Rate (per 200,000 person hours)						
Installations	0.67	1.28	0.67	1.19	0.33	0.83
Vessels	0.28	1.61	1.04	0.76	1.22	0.98
Aviation	0	0	0	0	0	0
Total	**0.47**	**1.35**	**0.83**	**0.95**	**0.49**	**0.82**

* The term "disabling injury" means an employment injury or an occupational disease that:
(a) prevents an employee from reporting for work or from effectively performing all the duties connected with the employee's regular work on any day subsequent to the day when the disabling injury occurred, whether or not that subsequent day is a working day for that employee,
(b) results in a loss by an employee of a body member or part thereof or in a complete loss of its usefulness, or
(c) results in the permanent impairment of a body function of an employee.

** Amended from the 2002 Annual Report based on updated Operator information.

such issues are dealt with to the satisfaction of the Board. In addition, the Board maintains regular contact with Operators and Certifying Authorities to ensure ongoing compliance with regulations, Occupational Health and Safety Requirements, and other conditions of authorization.

The CNSOPB routinely reviews minutes from Joint Occupational Health & Safety (JOHS) Committee meetings held offshore, to ensure that health and safety matters raised are dealt with appropriately. Board staff have regular contact with members of these committees to provide information and to assist in addressing issues that may arise.

As part of its effort to ensure high standards for health and safety are maintained, the Board regularly carries out compliance audits and inspections. During the past year, the Board made in excess of 13 visits to vessels and installations for the purpose of conducting such audits and inspections. These included pre-inspections of equipment and facilities prior to the Board's authorization to commence offshore

operations, as well as audits and inspections of offshore work sites during operations.

Consistent with the Memorandum of Understanding in place with the Nova Scotia Department of Environment and Labour, one of their safety officers joined an audit team lead by the Board's Chief Safety Officer onboard a drilling installation involved in offshore drilling activities.

The inspection and audit activities described above identified a number of corrective actions required, and the Board conducted the appropriate follow-up to ensure that such actions were taken.

1.5 International Regulators' Forum

The Board continues to participate in the International Regulators' Forum (IRF), which enables regulators from eight countries with offshore oil and gas activities (US, UK, Norway, Netherlands, Canada, Brazil, Australia and New Zealand) to exchange information on:

- Offshore health and safety trends
- Industry health and safety performance
- Lessons from incidents
- Industry best practices
- Regulatory practice
- Effectiveness of regulatory activities

At the conclusion of the first international conference of the IRF that was held in London, England in the spring of 2005, IRF members committed to

"delivering, within a year, real examples of common, global standards of practical value to the industry worldwide, in areas such as lifting and performance measurement."

An IRF working group, of which the Board is an active contributor, is currently developing a regulatory strategy for offshore lifting that:

- Has a global approach
- Targets priority concerns
- Provides means for consistent inspection
- Provides feedback for impact evaluation
- Captures best practice

Additionally, an IRF Performance Measurement Project has been launched to measure and compare offshore safety performance among IRF member countries on an annual basis. This is accomplished by collecting and comparing incident data from the eight participating countries based on a common set of criteria. It is the intent of the IRF to eventually share this data with the public and industry once it is fully confident in the quality of the data being collected. This will provide regulators a valuable international benchmark for their health and safety performance.

1.6 Offshore Security

The Board continues to support the enhancement of security measures in the offshore as part of Government of Canada's National Critical Infrastructure Assurance Program initiative. Under the leadership of Natural Resources Canada Energy Infrastructure Protection Division, the CNSOPB participates in a Regulators'

Forum, established to share information and to develop strategies for protecting critical energy infrastructure.

During 2005, the Board, in conjunction with the National Energy Board and Natural Resources Canada Energy Infrastructure Protection Division (EIPD), conducted a security management assessment of Sable Offshore Energy Project (SOEP) operations and associated land based support systems. The purpose of this audit was to assure the project is being managed appropriately and effectively, and in compliance with applicable legislative requirements.

Figure 2 – Summary of Work Activities

Activity	Number of Applications Approved		
	2005/06	2004/05	2003/04
Drilling			
Drilling Program Authorizations	1	3	4
Approval to Drill a Well	4a	4	7
Geophysical/Geotechnical/Geochemical			
Seismic	1	2	7 b & c
Seabed/Benthic Surveys/Geo. Evaluations	–	2	1
Installations			
Application to Alter a Well	11	12	9
Authorization to Install:			
• Alma jacket	–	–	1
• Alma topsides	–	–	1
• Alma pipeline tie-in spools	–	–	1
• Alma platform hook-up and commissioning	–	–	1
• South Venture pipeline/tie-in	–	1	–
• South Venture jacket	–	1	–
• South Venture topsides	–	1	–
• South Venture platform hook-up and commissioning	–	1	–
• Authorization to decommission/abandon Cohasset Project	1	–	–
Diving			
Diving Program Authorization	1	1	1
Production			
Production Operations Authorization (SOEP)	–	1	–
• Revised to add So. Venture Field	–	–	1
• Revised to add Alma Field	–	–	1
Total	**19**	**29**	**35**

Notes: a. Comprises three wells plus one sidetrack
b. Work associated with one of the authorized seismic programs did not proceed
c. Work for two of these seismic programs was suspended and completed in 2004

Figure 6 - Work Expenditures

EL #	Effective Date	Representative	Work Expenditure
2357	1-Jul-97	EnCana Corporation	$ 2,313,288
2359	1-Jul-98	Chevron Canada Limited	$ 66,667,000
2360	1-Jul-98	EnCana Corporation	$ 8,291,888
2361	1-Jul-98	ExxonMobil Canada Properties	$ 9,563,150
2364	1-Jul-98	Hunt Oil Company	$ 2,165,000
2365	1-Jul-98	Hunt Oil Company	$ 2,165,000
2368	1-Jul-99	Corridor Resources Inc.	$ 1,052,520
2369	1-Jul-99	ExxonMobil Canada Properties	$ 70,056,110
2376	1-Jul-99	EnCana Corporation	$ 71,623,566
2377	1-Jul-99	Marathon Canada Limited	$ 93,256,756
2378	1-Jul-99	Imperial Oil Resources Ventures Limited	$ 71,134,816
2380	1-Jul-99	EnCana Corporation	$ 1,239,895
2387	1-Jan-00	EnCana Corporation	$ 4,856,746
2401	1-Jan-01	Canadian Superior Energy Inc.	$ 5,125,800
2402	1-Jan-01	Canadian Superior Energy Inc.	$ 22,575,000
2404	1-Jan-01	Kerr-McGee Offshore Canada Ltd.	$ 13,120,000
2406	1-Jan-02	Canadian Superior Energy Inc.	$ 41,250,000
2407	1-Jan-02	BEPCo. Canada Company	$ 6,742,000
2408	1-Jan-02	EnCana Corporation	$ 10,515,951
2409	1-Jan-02	Canadian Superior Energy Inc.	$ 15,510,000
2410	1-Jan-02	Marathon Canada Limited	$ 176,694,282
2411	1-Jan-02	Marathon Canada Limited	$ 193,621,590
2412	1-Jan-02	Richland Minerals, Inc.	$ 4,283,650
2413	1-Jan-02	Richland Minerals, Inc.	$ 2,713,650
2414	1-Jan-02	EnCana Corporation	$ 75,856,789
2415	1-Jan-04	Canadian Superior Energy Inc.	$ 12,857,000
2416	1-Jan-04	Canadian Superior Energy Inc.	$ 1,250,000
Total			**$ 986,501,447**

1.7 Offshore Activities

All petroleum activity offshore Nova Scotia must receive prior authorization of the Board. Each work authorization application includes a Declaration from the Operator, an Operator's Safety Plan, an Environmental Assessment, a Canada-Nova Scotia Benefits Plan, Proof of Financial Responsibility, requisite information regarding the technical aspects of the proposed activity, and, where applicable, a Certificate of Fitness. The Health, Safety & Operations group coordinates the review of the documentation that accompanies each application.

1.8 Cohasset Project Decommissioning

Phase II of the Decommissioning of Canada's first offshore oil project, Cohasset, took place during 2005. The scope of this program consisted of removal and transport of the Cohasset and Panuke platforms and PLEM topsides. Phase I, which consisted of the depressurization, de-energizing, draining, flushing and cleaning of all equipment and production lines, well abandonment and conductor removal, was completed between 1999 and 2000.

1.9 Goal Oriented Regulatory Initiatives

Regulatory Renewal

Federal and provincial governments, in partnership with the three regulatory Boards (the Canada-Nova Scotia Offshore Petroleum Board, the Canada-Newfoundland and Labrador Offshore Petroleum Board, and the National Energy Board), have embarked on an initiative to modernize the regulatory environment for Canada's frontier and offshore oil and gas sector. Goal oriented regulations – a mixture of performance-based regulations and prescriptive requirements – are now being developed. These are intended to replace the more prescriptive regulations now in place, in order that Canada's regulatory regime can be kept current and competitive.

To date, work has focused on developing goal oriented Diving Regulations, as well as combined Drilling and Production Regulations. Both of these updated regulations are expected to be distributed in 2006. Updating of other regulations under the Accord Acts will then follow.

Guidance Documents

At the same time that regulations are being updated, the three regulatory Boards are developing associated guidance documents to assist industry in their implementation. Regulators plan to put in place these guidance documents at the same time that the associated regulations are released. The Board also continues to participate in working committees led by the Canadian Association of Petroleum Producers (CAPP) to develop guidance documents addressing certain health and safety matters that are not adequately addressed by regulation. These include:

- *Canadian East-Coast Offshore Petroleum Safe Lifting Practices Guidelines*

  Guidance documentation addressing four elements: offshore pedestal cranes, offshore containers, loose lifting gear, and other lifting devices has been drafted and is ready for circulation to a wide audience for comments. Drafting of guidance documentation for a fifth element addressing safe operating practices continues. The goal is to have all guidance documentation published by the end of 2006.

- *Canadian East-Coast Offshore Petroleum Industry Marine Escape, Evacuation and Rescue Guide*

  Discussions are taking place at the government level as to how best to proceed with drafting the final version of this Guide. The Guide has been developed to aid operators in their duties respecting marine escape, evacuation and rescue, by stating the broad goals of Escape, Evacuation, and Rescue (EER) emergency response.

2.0 Environment

The Board is responsible for protection of the offshore environment during all phases of petroleum activity, from geophysical exploration to project abandonment.

The Board is a Federal Authority under the Canadian Environmental Assessment Act (CEAA) and follows the environmental assessment process outlined in the CEAA. As well, all environmental assessments undertaken by the Board are required to consider the Species at Risk Act (SARA) to ensure the protection of listed species that may be affected by offshore activities. Memoranda of Understanding are in place with both the Department of Fisheries and Oceans Canada (DFO) and Environment Canada to provide effective regulation of environmental matters.

The CNSOPB continues to participate in environmental initiatives, such as the Eastern Scotian Shelf Integrated Management (ESSIM) initiative managed by DFO.

2.1 Environmental Assessments

Since July 2003, all offshore oil and gas activities have been subject to environmental assessment under the CEAA. This includes both exploration and development programs. Assessments conducted prior to July 2003 require a validation report to ensure that the findings of the original assessment are still valid.

Environmental assessments conducted this year include a vertical seismic profile assessment for EnCana Corporation (Exploration Licences (ELs) 2360, 2387, 2389, 2357 and 2901), as well as a validation report for EnCana's existing environmental assessments for exploratory drilling over these ELs. A validation report was also required from Hunt Oil for an environmental assessment for 2D seismic in Sydney Bight (ELs 2364 & 2365).

The CEAA process has also begun this year for two projects proposed by Canadian Superior Energy Inc. Project descriptions have been submitted for both seismic activity and exploratory drilling near the

Figure 3 - 2005-2006 Environmental Assessments (including validation reports)

Activity	2005-2006	2004-2005	2003-2004	2002-2003
Seismic Exploration	1 (validation)	2	13	7
Other Geophysical/Geotechnical	1	3	4	4
Drilling Programs	1 (validation)	1	10	8
Strategic Environmental Assessments	1	0	1	2
Other	0	1	1	0
Total	**4**	**7**	**29**	**21**

> “ The public can follow a proposed activity from the project description to the environmental assessment, and can also review documents and submit comments to the Board. ”

Sable Gully Marine Protected Area, in ELs 2415, 2416 & 2409 (seismic) and 2415 & 2416 (exploratory drilling). Environmental assessments for both projects are expected to follow.

Consideration of public comments is an important part of the CEAA review process. An internet-based Public Registry, established by the Canadian Environmental Assessment Agency, tracks all environmental assessments conducted under the CEAA. All environmental assessments undertaken by the Board as part of the CEAA review process are listed on this registry. The Board also posts project descriptions, environmental assessments, and related correspondence on its own Public Registry (http://www.cnsopb.ns.ca/environment/registry.html). The public can follow a proposed activity from the project description to the environmental assessment, and can also review documents and submit comments to the Board.

2.2 Deep Panuke

EnCana's Deep Panuke natural gas field is located 250km south-east of Halifax. The project consists of the installation of production facilities and the transport of those reserves to the Nova Scotia mainland. An environmental review was completed in December of 2002, with the conclusion that the project is unlikely to cause significant adverse environmental effects.

In February of 2003, EnCana requested a "time-out" in the regulatory process. Discussions regarding development of Deep Panuke resumed in 2005, and continue into 2006. An environmental assessment of the changes to the original environmental review will be required prior to project commencement. It is anticipated that a regulatory filing for the project will occur in 2006.

2.3 Fisheries Advisory Committee

The Board's Fisheries Advisory Committee (FAC) includes representatives from various fishing groups, DFO, the Nova Scotia Department of Agriculture and Fisheries, Natural Resources Canada, and the Nova Scotia Department of Energy. FAC members provide advice and suggestions to the Board regarding work authorization applications, regulations and guidelines.

Quarterly meetings are held, and briefing notes distributed, to inform and engage members in discussion of upcoming projects and other petroleum related activities. Committee members are provided with notice of all environmental assessments and are invited to submit comments to the Board for consideration during the review process.

2.4 Environmental Effects Monitoring (EEM)

For offshore petroleum activities, EEM involves scientific research on the effects of petroleum activities on specific components of the surrounding environment. In April of 2005, an Environmental Effects Monitoring Framework was developed in conjunction with DFO and Environment Canada. It is available online at http://www.cnsopb.ns.ca/environment/pdf/EEM_Framework_Final_April_05.pdf. The framework is designed to encourage closer government, regulator, and industry cooperation and coordination in designing, implementing and reviewing EEM programs related to oil and gas activities offshore Nova Scotia. In addition, it is designed to encourage efficient and timely reviews. The framework outlines the expected interactions and roles of applicable regulators, government departments and industry in EEM programs in the Nova Scotia offshore.

EEM programs conducted throughout the year include ExxonMobil's 2005 Sable EEM program and Hunt Oil's EEM program during a 2D seismic survey offshore Cape Breton in the Sydney Bight area.

2.5 Compliance Monitoring

Each operator is required to meet or exceed regulations or conditions when a work authorization is given. The Board monitors operations to ensure that operators comply with the regulations, guidelines, conditions and all applicable laws. Operators submit monthly and annual reports of discharges which are audited against projections, commitments, and conditions.

2.6 Strategic Environmental Assessments

Strategic Environmental Assessment (SEA) is a broad-based approach to environmental assessment that examines the potential effects associated with a plan, program or policy proposal. SEA allows for the incorporation of environmental considerations at the earliest stages of program planning. SEA typically involves an assessment that considers the larger ecological setting, rather than a project-specific environmental assessment that focuses on site-specific issues with defined boundaries.

4.6 Expenditures & Employment

Figure 7 - Total Expenditures in 2005 (in millions of dollars)

Activity	Nova Scotian		Other Canadian		Foreign		Total
	$	%	$	%	$	%	$
Total Projects	135.8	32.9	50.9	12.3	226.1	54.8	412.80
Total Exploration	24.0	38.1	19.7	31.2	19.4	30.7	63.10
Total G&G	0.769	39.2	0.646	33.0	0.546	27.8	1.96
Total Other	0.645	70.6	0.206	22.6	0.062	6.8	0.913
Total Expenditure	**161.2**	**33.7**	**71.5**	**14.9**	**246.1**	**51.4**	**478.80**

Projects include Sable and Deep Panuke expenditures
Exploration includes exploration drilling
G&G includes all geophysical programs
Other activities include subsea pipeline and other work by operators

Figure 8 - Total Employment for 2005 (in person hours)

Activity	Nova Scotian		Other Canadian		Foreign		Total
	#	%	#	%	#	%	
Total Projects	1,075,898	45.2	125,770	5.3	1,180,753	49.5	2,382,421
Total Exploration	189,955	72.7	57,434	22.0	13,760	5.3	261,149
Total G&G	2,430	29.0	1,890	22.6	4,050	48.4	8,370
Total Other	3,666.5	91.5	-	-	340	8.5	4,006.5
Total Employment*	**1,271,949.5**	**47.9**	**185,094**	**7.0**	**1,198,903**	**45.1**	**2,655,946.5**

** As provided by operators*

Further to consultations with Natural Resources Canada and the Nova Scotia Department of Energy, the Board undertook a SEA in the Misaine Bank area this year. The assessment was conducted to provide an overview of the existing environment in the area, as well as to discuss the potential environmental effects associated with offshore oil and gas exploration activities, identify knowledge and data gaps, highlight issues of concern, and make recommendations for mitigation and planning in the area.

A public information session was held in Sydney, Nova Scotia during a public consultation period to gather information and to hear feedback on the draft assessment from various stakeholders in the area. The key finding of the Misaine SEA was that the SEA area is not more sensitive to the potential effects of oil and gas than other areas of the Scotian Shelf. The Board has determined that the area can be opened for exploration, subject to the approval of an environmental assessment of the proposed activity.

The CNSOPB also participated in an international strategic environmental assessment conference this year, to share information about SEA on Canada's east coast and to develop an understanding of the role SEA plays in environmental decision making in other countries.

2.7 Guidelines

The Board uses several guidelines for support of regulation of the offshore oil and gas industry. These include:

1. Offshore Waste Treatment Guidelines (OWTG)
2. Offshore Chemical Selection Guidelines
3. Physical Environment Guidelines (PEG)
4. Compensation Guidelines Respecting Damage Related to Offshore Petroleum Activity.

The OWTG are joint guidelines with the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB), and the National Energy Board (NEB). They set limits for offshore discharges, including the treatment and disposal of wastes. The Offshore Chemical Selection Guidelines are intended to provide a consistent framework for chemical selection as part of the environmentally responsible management of chemicals used in offshore drilling and production activities.

The PEG outlines the requirements for observing, forecasting and reporting physical environmental conditions during drilling and production activities. Physical environmental monitoring programs are in place to ensure safety, prudent conduct of operations and emergency response planning is based on appropriate weather, oceanographic and ice data gathered during exploration or production. The PEG are joint guidelines with the C-NLOPB and the NEB. A draft of a revised PEG was released for comment in early 2004. An updated final version is expected this year.

> “ Strengthening and establishing relationships with external stakeholders is essential to the Board’s mission and mandate. ”

5.0 Administration

The year saw several changes to the composition of the Board.

In September 2005, Diana Lee Dalton was appointed Chair of the CNSOPB, bringing with her a wealth of international regulatory experience and a keen desire to contribute to the work of the Board. The Chair of the five-person Board is jointly appointed by the Federal and Provincial governments, and serves a term of six years.

In February of 2006 an alternate member was also named to the Board. Mr. Keith R. Evans, a provincial appointee, will serve when other Board members are unable to attend or otherwise fulfill their Board responsibilities.

The Board Members in 2005 engaged in an extensive corporate governance review, including corporate governance procedures and the establishment of committees.

Management and staff at the Board continue to improve the internal Quality Management System, this year completing seven key policy and procedure documents which make the system more complete, efficient and responsive.

Internally, the Board’s Joint Occupational Health & Safety Committee (JOHS) has been working to ensure health and safety in the workplace remains a priority for all staff. We are pleased to report that this year saw no incidents or accidents within the Board. Moreover, all Board staff received JOHS training, as well as First Aid and other specific safety training as positions require.

Christine Bonnell-Eisnor, one of the CNSOPB’s reservoir engineers, was named the 2005 Young Engineer of the Year by the Association of Professional Engineers of Nova Scotia (APENS). The award is presented annually to an engineer under 35 years of age who has demonstrated great promise in the profession. The Board is very proud of her achievements.

The Board’s key contact point with most stakeholders remains the website, www.cnsopb.ns.ca. This site receives over 37,000 visits per month. Strengthening and establishing relationships with external stakeholders is essential to the Board’s mission and mandate. This year the Board held an Open House, inviting interested parties to meet Board Members as well as staff, and learn about Board activities first hand. Moreover, several staff members made speeches and presentations to audiences at a variety of venues. Public engagements of this kind help inform the community of activity offshore, how they can become involved, and what role the Board plays within the industry.

Royalties in the amount of $160,361,292.00 were received by the Board in respect of production from ExxonMobil Canada Ltd’s (ExxonMobil) Production Licences 2903 (Venture), 2904 and 2905 (Thebaud), 2906 (North Triumph), 2907 (Alma), and 2908 (South Venture) during this past fiscal year. These funds have been forwarded to the Receiver General of Canada in accordance with the Royalty Collection and Administration Agreement signed by the Board, the federal government and the Province of Nova Scotia.

The Compensation Guidelines Respecting Damage Related to Offshore Petroleum Activity are utilized jointly by the CNSOPB and the C-NLOPB. The guidelines are intended to describe the various compensation sources available to potential claimants for loss or damage related to petroleum activity offshore Nova Scotia and Newfoundland and Labrador. The guidelines outline the regulatory and administrative roles of the Boards respecting compensation payments for actual loss or damage directly attributable to offshore operators.

2.8 Environmental Studies Research Fund

The Board is a member of the Environmental Studies Research Fund (ESRF) management board, which includes representatives from government, regulators, industry, and the public. Research funding comes from levies paid by oil and gas companies operating facilities or conducting exploration and development. The funds help finance studies to determine how exploration, development, production and abandonment of oil and natural gas should be conducted. They take into account the environmental, social, and economic impact of each operation. The 12-member management board sets priorities, budgets, and development protocols.

This year's research priorities include evaluation of seismic impacts, seabird and marine mammal monitoring, the effects of sheens on seabirds, physical environment studies, waste discharge impacts, dispersants and spill response, and some stand-alone projects.

2.9 Spills & Releases

The potential environmental impacts of each spill and release from offshore oil and gas activities are investigated by the Board. Spills and releases are required to be reported to the Board within 24 hours of occurrence. The Board also monitors spill occurrences to determine if any trends are developing. Environmental concerns include the potential impact of surface petroleum products on seabirds, as well as the impact of spills on the marine habitat. Figure 4 provides a list of the spills that occurred during the 2005-2006 fiscal year.

The Board is currently investigating a spill of monoethylene-glycol (MEG) from the pipeline between the Alma and Thebaud platforms. On January 12, 2006 the line was reported to be leaking at an undetermined rate. The Board subsequently required ExxonMobil Canada, operator of the Sable Offshore Energy Project, to shut-in the MEG injection system on the Alma production platform. MEG is a type of industrial anti-freeze, and is injected at the Thebaud platform into the 3 inch interfield flowline to prevent the build up of hydrates. Hydrates form as a block of ice within the line, can be very difficult to remove, and pose a potential safety hazard.

The Board also conducted an investigation of a spill that occurred in August of 2004.

Figure 4 – 2005-2006 Spills and Releases

Material	Less than 1L	1-10L	11-150L	Greater than 150L	Total
Condensate	1	-	1	-	2
Synthetic Based Muds	-	-	-	-	-
Light Oil	2	2	3	-	7
Chemicals	-	-	-	1	1
Synthetic Based Oil	-	-	1	-	1
Total	**3**	**2**	**5**	**1**	**11**

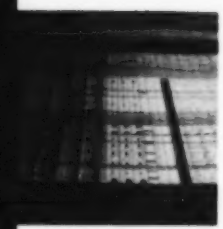
Approximately four cubic metres of diesel fuel dispersed into the ocean from the North Triumph platform. The discharge resulted from a cracked fuel filter on the main generator.

The Board released a report regarding the discharge of SBM on September 1, 2005.

2.10 Other Initiatives

The Board continues to participate in the Eastern Scotian Shelf Integrated Management (ESSIM) initiative. ESSIM is lead by DFO, and takes a collaborative, integrated planning and management approach to addressing broad scale issues of ocean use on the Eastern Scotian Shelf.

The Board is also actively involved with DFO and Environment Canada to ensure the protection of species at risk in offshore areas where oil and gas activities take place. A species at risk working group was formed this year as a discussion forum for species at risk issues arising from the environmental assessment process.



3.0 Rights & Resources

The Board's mandate includes rights issuance, resources management as well as data collection and distribution. The rights issuance or licencing policy is based on the Canadian Petroleum Resources Act. Administration of the licensing process is reviewed annually by the federal and provincial governments to ensure it supports and is consistent with the goals and objectives set out in the Board's Strategic Plan.

3.1 Resources

3.1.1 Production/Reserve Estimate

Production from the Sable Offshore Energy Project averaged a rate of 11.5 e6m3/day (million cubic metres per day) or 406 MMcf/day (million cubic feet per day), for the past fiscal year, compared to 11.3 e6m3/day or 400 MMcf/day for the previous year. Total production for the fiscal year was 4.2 e9m3 (billion cubic metres) or 148 Bcf (billion cubic feet), compared to 4.1 e9m3 or 146 Bcf previously. Total production to date for the project is 28.6 e9m3 or 1.01 Tcf. Field production splits to date have been 34%, 30%, 19%, 11% and 6% for Thebaud, Venture, North Triumph, Alma and South Venture.

The expected reserves for the project have not been revised from the previous year. The original reserve gas in place estimates for the six Sable project fields, as documented in the Development Plan, is 129.3 e9m3 (4.6 Tcf – trillion cubic feet), with a P90 to P10 range of 57.1 to 217 e9m3 (2.9 to 7.7 Tcf). The lower end P90 value is estimated to have a 90% chance of being exceeded, and the P10 value, a 10% chance. The expected total project recoveries of gas were presented as 84.3 e9m3 (3 Tcf), with a P90 to P10 range of 32.3 to 145.1 e9m3 (1.1 to 5.1 Tcf). The most recent public declaration of project reserves by a project partner was made by Shell in January 2004. This was for 38.9 e9m3 (1.4 Tcf) of expected recoverable gas. Each of the partners will have their own estimate of project volumes and it is expected that estimates may vary over the life of a project as more information becomes available.

3.1.2 Project Monitoring

The Board monitors exploration and development activity to ensure maximum conservation of the resource and compliance with the regulations. This is accomplished through monitoring reservoir production and performance, regular communication with the operator, and reviewing all activity authorization applications from a resource conservation perspective. Where appropriate, technical studies are undertaken to independently validate proposals and activities.

> “ The Board monitors exploration and development activity to ensure maximum conservation of the resource and compliance with the regulations. ”

3.1.3 Exploration Activity

The following exploration wells* were drilled during the reporting period:

- Dominion J-14:
  November – December 2005
- Dominion J-14A (sidetrack):
  December 2005 – February 2006

*Technical data collected from these wells remains confidential at this time.

Each application to drill a well includes, among other requirements, a drilling plan which is reviewed by the Rights and Resources staff. Board staff undertake technical evaluations of all geological, geophysical, petrophysical and reservoir engineering aspects. The evaluation also ensures the drilling plan is consistent with regulations. After the well is spudded (i.e. initially drilled), progress is monitored daily through reports and updates from the operator to ensure drilling is consistent with the approved program. All modifications are reviewed. After the well is drilled, the well results and final reports are reviewed, analyzed and archived by staff.

3.1.4 Geophysical Programs

In the 2005 calendar year, Hunt Oil acquired 920.5 kilometres of 2D (two dimensional) seismic data. This was the only seismic data acquired in the Nova Scotia offshore for the reporting period. In the 2004 calendar year, 514.2 kilometres of 2D data and 353.3 square kilometres of 3D (three dimensional) data was acquired.

Each application for authorization to conduct a geophysical program is reviewed by Rights and Resources staff, ensuring that there is no unnecessary duplication of data acquisition and that there is compliance with the geophysical regulations and Board guidelines. After the program has commenced, progress is monitored weekly through reports and updates from the operator in order to ensure progress is consistent with the approved program. Any modifications are reviewed. After the program is complete, the new data and final reports are reviewed, analyzed and archived by staff.

3.1.5 Resource Assessment

One of the Board's primary responsibilities is hydrocarbon resource assessment. These assessments help to determine the potential volume of oil and gas discovered to date, as well as undiscovered potential. In June 2005, the Board released a comprehensive geological and geophysical assessment of the Jurassic Age Abenaki reef trend along the edge of the continental margin offshore Nova Scotia.

In October 2005, the Board began a detailed review of recent and historical deepwater drilling. This study will be completed by March 2006. The Board is reviewing the impacts of this study on its 2002 Deepwater Assessment report.

The Board is also working on an internal resource assessment of the Sable Subbasin. This area, surrounding Sable Island, covers approximately 11,000 square kilometres. Such assessments further the Board's understanding of the hydrocarbon potential offshore Nova Scotia, and are incorporated into decisions made pertaining to activities and the issuance of petroleum rights.

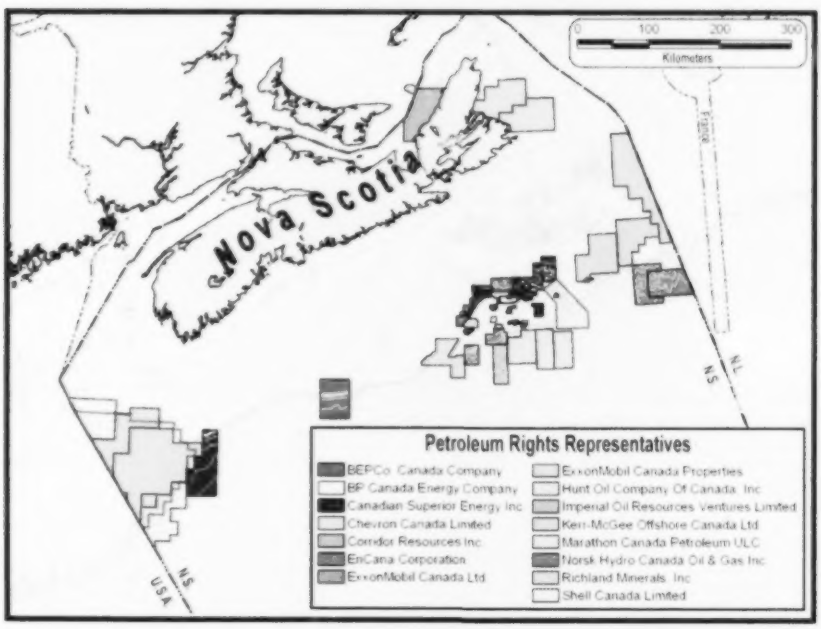
3.2 Rights Management

Public Registry of Instruments & Interests

The Board maintains a public registry of all registered offshore interests and instruments, as required in the Accord Acts. This is the official record of rights holders, and any transfer of rights or change of ownership must be registered. Public information from the Registry is placed on the Board's website for ease of access.

3.2.1 Interests

This map shows the active exploration licences offshore Nova Scotia as of March 23, 2006.



3.2.2 Call for Bids

At any time during the year, industry may nominate parcels of land offshore for potential exploration. Nominated parcels are reviewed on March 31st and September 30th to determine whether any will be included in a future Call for Bids. There are presently two areas where nominations will not be accepted: the Georges Bank moratorium area and the Sable Gully Marine Protected Area.

The Board completed a review of nominations from the petroleum industry received up to March 31, 2005 and up to September 30, 2005. Following this review the Board elected not to proceed with a June or December Call for Bids.

3.2.3 Exploration Licences

At the end of this fiscal year, there were 27 active exploration licences offshore Nova Scotia with a total original work commitment of approximately one billion dollars.

The term of an Exploration Licence (EL) is nine years, consisting of two consecutive periods referred to as Period 1 and Period 2. Period 1 is five years, commencing on the effective date of the licence. This period will be extended by one year if a well is commenced or a Drilling Deposit is posted before the end of the fifth year. If a validation well is drilled, Period 2 immediately follows Period 1 and consists of the balance of the nine year term of the Exploration Licence.

The interest holder of an exploration licence is required to post security for 25% of the work expenditure bid on the licence. Expenditures the operator makes on a licence are reviewed by the Board. Once approved, 25% of the amount spent counts against the 25% Work Deposit, thus making it refundable. Particular allowable expenditures are described for each exploration licence.

During the fiscal year EL 2402 commenced Period 2 of the licence. This EL was validated for Period 2 by the drilling of the Marquis L-35 exploration well. Meanwhile, the posting of a Drilling Deposit of $250,000 for EL 2401 extended that licence by one year. It will now expire December 31, 2006. If a well is spudded before that date the EL will be validated for Period 2, but the original Period 2 expiration date will not be extended.

On December 31, 2005 five ELs expired at the end of their Period 1 (ELs 2398, 2399, 2400, 2403 and 2405). These ELs were issued as a result of Call for Bids NS00-1.

Extended Period 1 for EL 2389 also expired on December 31, 2005. This EL was issued as a result of Call for Bids NS99-1.

All of the land from these ELs reverts back to crown upon expiry.

For the past fiscal year, total forfeitures paid by companies for ELs that were validated, surrendered or expired was $49,351,179.

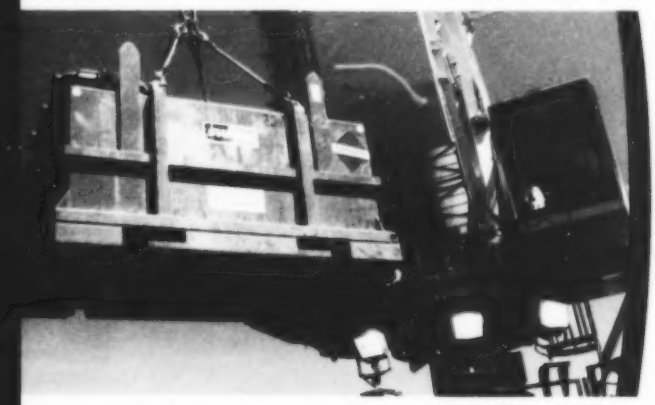
Figure 5 - Forfeitures

EL #	Work Expenditure	Work Deposit	Forfeiture
2381	$ 23,303,666	$ 5,825,917	$ 227,062
2382	$ 68,555,664	$ 17,138,916	$ 454,685
2383	$ 5,100,000	$ 1,275,000	$ 1,148,068
2386	$ 24,888,888	$ 6,222,222	$ 3,204,654
2389	$ 15,389,712	$ 3,847,428	$ 2,228,514
2390	$ 8,347,986	$ 2,086,997	$ 1,945,809
2393	$ 1,500,000	$ 375,000	$ 324,670
2395	$ 13,279,856	$ 3,319,964	$ 2,269,545
2396	$ 6,100,000	$ 1,525,000	$ 46,539
2398	$ 27,203,000	$ 6,800,750	$ 6,635,807
2399	$ 20,639,000	$ 5,159,750	$ 5,098,337
2400	$ 2,110,000	$ 538,050	$ 527,500
2403	$ 97,776,000	$ 24,444,000	$ 24,437,489
2405	$ 3,210,000	$ 802,500	$ 802,500
Total			**$ 49,351,179**

In accordance with the terms and conditions of the Exploration Licence, rentals are to be paid annually, in advance, at the rate of $2.50 per hectare for each year of Period 2. The rentals may be refunded upon application, to the extent of approved allowable expenditures incurred during Period 2. Failure to pay rentals will result in cancellation of the Exploration Licence.

In the past fiscal year, the total rentals paid and deposited in the account of the Receiver General for Canada was $1,212,597.50.

Active Exploration Licences at the end of the fiscal year are shown in Figure 6. These encompass a total area of 3,482,736 hectares.



3.2.4 Significant Discovery Licences

A Significant Discovery Licence (SDL) maintains an explorer's rights during the period between the first discovery and eventual production. The term of such a licence continues for as long as the SDL is in force. There are presently 33 SDLs offshore Nova Scotia, covering an area of 83,028 hectares. At the end of this fiscal year the Board initiated a technical assessment to update the estimate of recoverable reserves associated with these significant discoveries.

3.2.5 Production Licences

There are eight Production Licences offshore Nova Scotia with a total area of 33,858 hectares. A production licence is issued for any portion of the offshore area declared a commercial discovery. Such licences have a term of 25 years, but may be extended if commercial production is continuing or is likely to recommence.

ExxonMobil Canada Ltd. is the interest representative for the six Sable gas Production Licences. The current interest ownership for the Sable PL's 2903 to 2908, inclusive, are:

- ExxonMobil Canada Ltd. (50.80 %) Interest Representative
- Shell Canada Limited (31.30 %)
- Imperial Oil Resources Limited (9.00 %)
- Pengrowth Corporation (8.40 %)
- Mosbacher Operating Ltd. (0.50 %)

The two remaining production licences, PL 2901 and 2902, were issued for the Cohasset-Panuke offshore oil project, production from which ended in 1999.

3.2.6 Exploratory Permits

There are two areas with exploratory permits located in the southwest and northeast parts of the Nova Scotia Offshore Area. These permits were issued under legislation that has since been replaced.

In the southwest, the area of Georges Bank is subject to a statutory moratorium on petroleum activity until December 31, 2012.

The permits in the northeastern area straddle the Nova Scotia – Newfoundland and Labrador inter-provincial boundary, and the area of French jurisdiction south of the islands of Saint-Pierre and Miquelon. Before any drilling activity can take place on these lands, the permits must be converted to exploration licences. The Accord Acts require the Board and the interest holders negotiate new terms and conditions for the successor licences. Conversion of these permits to an Exploration Licence is near completion.

3.3 Data Archive, Core Storage & Laboratory

Data collection and curation are also essential to the Board's mandate. The Data Archive, Core Storage & Laboratory fulfills this responsibility as a public facility which provides geological and geophysical information and services for the Nova Scotia Offshore Area. The facility archives all final well history, geological, geophysical and wellsite survey reports. It is also used to archive all subsurface samples, including cores, obtained from petroleum exploration and development wells drilled in the Nova Scotia Offshore Area.

Most data is confidential for a period of time specified in the Accord Acts: two years following well termination for exploration wells, 90 days for delineation wells and 60 days for development wells. Once the confidentiality period has expired, information may be disclosed to the public. Industry, drilling or service companies and scientific or government organizations are the primary consumers of these reports and samples.

In this reporting period, industry, which included national, international and local companies, accounted for 19% of activity at the facility; drilling or service companies accounted for 17% of facility use and the remaining 64% of users were from government or academic organizations.

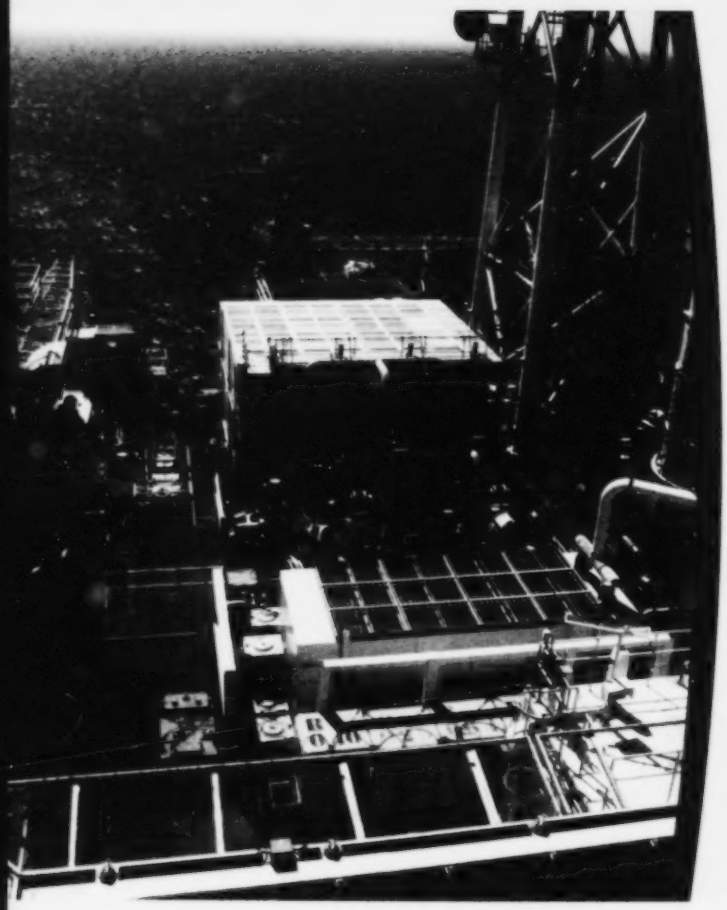
In this reporting period, significant consultations and studies were conducted to advise the Board on digital data management and related digital data disclosure policy. In addition, the archive facility staff developed a variety of text base databases for cataloguing and circulation of well, geophysical, geotechnical, seabed and physical environmental data. Retrospective conversion of the historical data to digital format is ongoing.

Data from the following wells became available for public disclosure during the reporting period:

- Margaree F-70
- Balvenie B-79
- Marcoh D-41
- Mariner I-85

4.0 Industrial Benefits

One of the most prominent aspects of the Board's mandate is to ensure operators' plans meet with the Nova Scotia benefits provisions of the Accord Acts.



4.1 Benefits Plans

The Accord Acts require that the Board must, before any work or activity can begin offshore, receive and approve a Canada-Nova Scotia Benefits Plan, unless the requirement is waived by the Board in accordance with the provisions of the legislation.

All benefits plans must provide manufacturers, consultants, contractors and service companies in the Province of Nova Scotia and in other parts of Canada, with a full and fair opportunity to participate on a competitive basis in the supply of goods and services used in any proposed work or activity referred to in the benefits plan. Moreover, to be acceptable, the benefits plan must also address such subjects as the establishment of an office in the province, the promotion of research and development and education and training in the province, and, of course, employment in the program for which the plan is being submitted.

The Board also ensures individuals resident in the province are given first consideration for training and employment, in accordance with the legislation, and consistent with the Canadian Charter of Rights and Freedoms. The same consideration is afforded to services provided from within the province and to goods manufactured in the province, where those services and goods are competitive in terms of fair market price, quality and delivery.

> “ One of the most prominent aspects of the Board's mandate is to ensure operators' plans meet with the Nova Scotia benefits provisions of the Accord Acts. ”

4.2 Benefits Review Committee

The Benefits Review Committee (BRC) was established in 1995 as a consultation mechanism for members of the Nova Scotia Department of Energy, Natural Resources Canada and Board staff. Representatives from other federal and provincial agencies and departments, such as Industry Canada and the Atlantic Canada Opportunities Agency, are also called to participate when necessary. The committee meets throughout the year with special meetings held when needed to discuss specific benefits-related matters.

4.3 Sable Offshore Energy Project

As part of a condition of the Benefits Plan Decision Report, ExxonMobil Canada, operators of the Sable Project, must file quarterly and annual benefits reports with the Board. Cumulative to December 31, 2005 using the Canadian General Standards Board (CGSB) method for content reporting, $1.658 billion has been spent in Nova Scotia and $778 million in the rest of Canada for a total Canadian expenditure of $2.436 billion.

On December 31, 2005 there were 1589 people working on SOEP of which 740 were working in Nova Scotia.

Person hours reported for SOEP, cumulative to December 31, 2005, totaled 15.33 million Nova Scotian, 2.82 million other Canadian and 8.57 million Foreign for a total of 26.72 million person hours.

4.4 SOEP Compression Platform

In August of 2003, Sable Offshore Energy Inc. notified the Board of their intention to let a significant contract for the Engineering, Procurement, Construction and Installation (EPCI) of the Sable Compression Platform and Facilities. The lump sum contract work scope includes engineering, procurement, construction, transportation, installation, hook-up and commissioning of the Sable compression platform and facilities.

The final phases of this project, which consist of the Transportation, Installation and Brownfield & HUC work packages, are scheduled throughout fiscal 2006.

Start-up for the compression deck is scheduled for 4th quarter 2006. At the end of the 3rd quarter of 2005, there was an estimated 948 staff working on the project in various locations.

4.5 Other Activity

Other offshore activity, such as exploratory drilling and seismic acquisition, performed by operators offshore Nova Scotia for 2005 totaled $25.4 million in Nova Scotia and $20.6 million in the rest of Canada for a total Canadian expenditure of $46 million.

Person hours reported for these activities totaled 196,052 Nova Scotian, 59,324 other Canadian and 18,150 Foreign for a total of 273,526 person hours.

Figure 9 - CNSOPB Organizational Chart

6.0 Board Biographies

Diana Dalton - Chair, Canada-Nova Scotia Offshore Petroleum Board

Diana Dalton, a native of Yarmouth, Nova Scotia and lawyer by training, has extensive experience in international legal and regulatory issues. She has worked for the United Nations, the World Bank and the Organization for Economic Co-operation and Development on projects in over 30 developed and developing nations around the world. An experienced regulator, Ms. Dalton has drafted laws, regulations and administrative procedures for the mining, petroleum, and energy sectors in nations such as India, China, Vietnam, Papua New Guinea, and the Democratic Republic of Congo.

From 1991 to 1995 she served as the Interregional Advisor in Natural Resources to the United Nations Department of Finance & Social Development at UN Headquarters in New York City. Ms. Dalton was also part of the negotiating team for Nova Scotia resulting in the Canada-Nova Scotia Offshore Oil and Gas Agreement of 1983-84.

She currently sits as Chair of the Canada-Nova Scotia Offshore Petroleum Board, and works as an independent consultant from her home in Halifax.

Michael Casey, CA, CBV - Board Member

Michael Casey is Vice-President with the chartered accountancy firm Hemming Weir Casey Inc. He holds a Bachelor of Arts degree from Dalhousie University, and is a member of the Institute of Chartered Accountants of Nova Scotia and the Canadian Institute of Chartered Accountants.

Mr. Casey holds qualifications as a Chartered Business Valuator, and is a member and former board member of the Canadian Institute of Chartered Business Valuators. He is also registered in the specialty register of the Institute of Chartered Accountants of Nova Scotia as a CA-designated specialist in business valuation.

Mr. Casey has held voluntary positions on a number of Boards, including as past President of the Waegwoltic Club in Halifax. He currently serves as Treasurer and Board Member of the Nova Scotia Tattoo.

Brian Giroux - Board Member

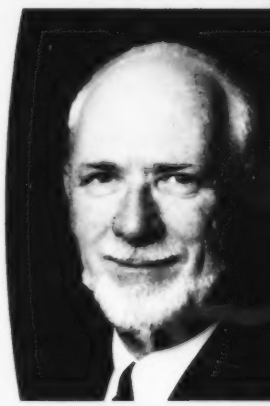
Brian Giroux is the Executive Director of the Scotia Fundy Mobile Gear Fishermen's Association, a position he has occupied since 1989.

Mr. Giroux has broad experience as a government consultant on resource assessment and aquaculture projects, and has served as an International Fisheries Observer for the Department of Fisheries and Oceans. He is a licenced Fishing Master, and has worked on various types of vessels, catching a number of different species. Throughout his career, Mr. Giroux has been involved in a number of committees and programs. He is a past member of the Council of Science and Technology Advisors, Past Chairman of the Department of Fisheries and Oceans Science Advisory Council, and Chairman of the Scotia Fundy IQ (Individual Quota) Committee.

William D. Hogg - Board Member

Bill Hogg retired from 25 years in the Nova Scotia Public Service. He became a Chartered Accountant in New Brunswick, where he worked with a national accounting firm before joining the Nova Scotia Civil Service.

Mr. Hogg worked in the Department of Health, was Director of Audits in the Office of the Auditor General, and Executive Director, Finance and Administration for the Department of Government Services. He was appointed Deputy Minister of Government Services in April 1993 and served as Deputy for the next 10 years in the Departments of Natural Resources, Transportation and Public Works, and most recently Finance.



In addition to his role as Deputy Minister, Mr. Hogg served on the Boards of numerous Crown Corporations, completed a three year term on the Public Sector Accounting Board and received the Institute of Public Administration's Lieutenant Governor's Award for Excellence in Public Administration in 2003.

Mr. Hogg Chaired the Public Sector Accounting Board Study Group, Accounting in Government Budgeting, and is currently engaged in providing management consulting services.

Sara Jane Snook -
Board Member

Sara Jane Snook is a professional engineer with over 20 years of experience in corporate finance and oil and gas development. She holds a Bachelors and Masters Degree in Engineering from the Technical University of Nova Scotia (now part of Dalhousie University).

Sara Jane began her career in Calgary, working for a large, multinational oil company. She returned to Atlantic Canada to join the Nova Scotia government. After a decade, which saw the first oil production and the first gas project in the Nova Scotia offshore accomplished, she returned to the private sector and spent five years in corporate banking with a large Canadian bank.

Currently, Sara Jane is the Executive Director of Springboard, an organization to promote technology transfer at Atlantic Canadian Universities. Sara Jane is active in the local community with minor sports and encouraging young people toward careers in science and technology. Sara Jane is a member of the Association of Professional Engineers of Nova Scotia, the Association of Professional Engineers, Geologists and Geophysicists of Alberta, the Society of Petroleum Engineers, and the Association of University Technology Managers.

Keith R. Evans, Q.C., -
Alternate Member

Keith Evans is a practicing member of the Nova Scotia Barristers' Society and serves as the General Counsel for the Scomi Group Berhad, a Malaysian public company, and the KMC Oiltools Bermuda Limited group of companies, which are owned by Scomi. The group is involved in manufacturing activities, marine transportation and logistics, production chemical activities and drilling fluid and waste management activities in the oil and gas sector worldwide. With this experience, Keith has been involved in many aspects of the oil and gas industry for over 15 years. He holds an LL.B. Degree from Dalhousie University and an LL.M from the University of Sydney, Australia.

He originally started his legal practice in Halifax with what was then Cox, Downie, Nunn & Goodfellow, and has also been with Baker & McKenzie in their Singapore Office. He has served on the full time faculty at the Law Schools at the National University of Singapore and Dalhousie University. He currently serves as President of the Nova Scotia Law Reform Commission.

7.0 Financial Statements

AUDITOR'S REPORT

TO THE MEMBERS OF CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD:

We have audited the statement of financial position of Canada-Nova Scotia Offshore Petroleum Board as at March 31, 2006 and the statements of revenue and expenditures and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain resonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2006 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Levy Casey Carter Maclean

LEVY CASEY CARTER MACLEAN
CHARTERED ACCOUNTANTS

Halifax, Nova Scotia
April 21, 2006

CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2006

ASSETS

	2006	2005 (restated)
Current		
Cash	**$ 1,179,129**	$ 853,454
Receivables (note 3)	**1,457,711**	210,742
Prepaid expenses	**45,944**	55,000
	2,682,784	1,119,196
Property and equipment (note 4)	**215,235**	314,636
	$ 2,898,019	$ 1,433,832

LIABILITIES

Current		
Payables and accruals, trade	**$ 255,466**	$ 190,271
Payable to government (note 5)	**751,424**	429,927
Deferred operating grants (note 6)	**112,394**	-
	1,119,284	620,198
Deferred capital grants	**215,235**	314,636
Deferred grant - Core Lab (note 7)	**1,000,000**	-
Accrued pension obligations (note 8)	**277,129**	254,698
Accrued other retirement obligations (note 9)	**286,371**	244,300
	$ 2,898,019	$ 1,433,832

Commitments (note 11)

Approved by the Board

Diana Lee Fulton
Director

Gordon Hagen
Director

CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD

STATEMENT OF REVENUE AND EXPENDITURES

YEAR ENDED MARCH 31, 2006

	2006	2005 (restated)
Revenue		
Grants - Operating		
Government of Canada	**$ 2,210,000**	$ 2,360,000
Government of Nova Scotia	**2,210,000**	2,360,000
Sable Offshore Energy Project - Cost recovery	**1,213,520**	1,256,226
Deep Panuke Project - Cost recovery	**251,800**	61,009
Other Industry recoveries	**671,288**	918,410
Inspection fees	**21,500**	16,000
Sale of Board publications and maps	**350**	970
Interest	**28,717**	20,950
Gain on disposal of property and equipment	**180**	907
Amortization of deferred capital grants	**129,079**	233,262
	6,736,434	7,227,734
Less:		
Cost recoveries refunded to government	**(2,149,579)**	(2,269,282)
Deferred capital grants	**(29,679)**	(146,558)
Deferred revenue	**(356,694)**	(326,191)
	4,200,482	4,485,703
Expenditures		
Personnel, consulting and Board members	**3,001,044**	3,184,077
General office and support	**542,764**	537,031
Office and laboratory premise costs	**410,136**	409,946
Amortization of equipment	**129,079**	233,262
Data management and Diver Certification Board	**52,957**	87,032
Pension obligations cost	**22,431**	34,355
Other retirement obligations cost	**42,071**	-
	4,200,482	4,485,703
Excess of revenue over expenditures	**$ -**	$ -

CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD

STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2006

	2006	2005 (restated)
Operating Activities		
Amortization of deferred capital grants	**$ 129,079**	$ 233,262
Amortization of property and equipment	**(129,079)**	(233,262)
Gain on disposal of property and equipment	**(180)**	(907)
SERP pension cost (note 8)	**22,431**	34,355
Other retirement pension cost (note 9)	**42,071**	-
	64,322	33,448
Net change in non-cash working capital balances related to operations (note 10)	**261,171**	(738,419)
	325,493	(704,971)
Investing Activities		
Proceeds on disposal of property and equipment	**180**	907
Purchase of		
Leasehold improvements	**-**	(35,185)
Furniture and equipment	**(22,333)**	(24,669)
Computer equipment	**(7,344)**	(73,890)
Computer software	**-**	(1,950)
Equipment	**-**	(10,864)
Deferral of capital grants	**29,679**	146,558
	182	907
Increase (decrease) in cash during year	**325,675**	(704,064)
Cash, beginning of year	**853,454**	1,557,518
Cash, end of year	**$ 1,179,129**	$ 853,454

CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

1. Purpose of organization

The Canada-Nova Scotia Offshore Petroleum Board was formed to administer the relevant provisions of the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Acts enacted by the Parliament of Canada and the Legislature of Nova Scotia. The Board is funded by grants from the Federal and Provincial Governments in equal contributions. The Board collects and remits to the Governments cost recovery charges assessed against industry from regulatory reviews, up to a maximum of 50% of the Board's approved budget. The Board is a non-profit organization and is, therefore, exempt from income tax.

2. Accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Capital asset purchases under $2,500 will be recorded as expenditures. Amortization is recorded using the straight-line method over four years for furniture and fixtures and over three years for computer equipment and software. Leasehold improvements are amortized over the life of the lease.

(b) Deferred operating grants

Operating grants received from governments in excess of Board expenditures, net of other revenue, are credited to deferred revenue.

(c) Deferred capital grants

Federal and provincial grants received for annual capital expenditures are deferred and recognized into revenue on a basis consistent with the capital assets amortization charge.

(d) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) Revenue recognition

Revenue is recognized on an accrual basis. Recoveries revenue is recognized as the related expenditures occur.

2. Accounting policies (cont'd)

(f) Accrued pension obligations

The actuarial determination of the accrued benefit obligation and current service cost for the SERP uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels and the plan's benefit allocation formula). Under this method an equal portion of the total estimated future benefit (i.e. with future salary levels and inflation), is attributed to each year of service.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between actual long term rate of return on plan assets for a period and the expected long term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market-related value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan.

Obligations are attributed to the period beginning on the later of January 1, 1992 and employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.

3. Receivables

	2006	2005 (restated)
Harmonized sales tax	$ 34,214	$ 31,035
Government of Canada grant	-	69,226
Government of Nova Scotia grant	1,365,000	69,226
Other	58,497	41,255
	$ 1,457,711	$ 210,742

4. Property and equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	$ 394,493	$ 265,048	$ 129,445	$ 191,969
Furniture and fixtures	374,395	339,436	34,959	42,495
Computer equipment	482,723	439,658	43,065	65,461
Computer software	180,328	179,352	976	1,626
Equipment	79,054	72,264	6,790	13,085
	$ 1,510,993	$ 1,295,758	$ 215,235	$ 314,636

CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

5. Payable to government

	2006	2005
Federal government - cost recovery funds	$ 271,558	$ 214,963
Provincial government - cost recovery funds	479,866	214,963
	$ 751,424	$ 429,926

6. Deferred operating grants

	2006	2005 (restated)
Federal government	$ 56,197	$ -
Provincial government	56,197	-
	$ 112,394	$ -

7. Deferred grant - Core Lab

The Government of Nova Scotia provided an unconditional grant in its 2005-06 budget in the amount of $1,000,000 to support the Board's initiatives to improve the management and dissemination of geological data. This grant had not been used by the Board at March 31, 2006.

8. Pension obligations

(a) Supplementary Employee Retirement Plan (SERP)

The Canada-Nova Scotia Offshore Petroleum Board Supplementary Employee Retirement Plan provides benefits to its employees who are members of the Public Service Superannuation Plan (PSSP). Employees are eligible for membership in this plan once their pensionable earnings have reached a level such that their benefits under the PSSP are limited by the maximum pension limits under the Income Tax Act.

The Board measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the retirement plan for funding purposes was as of March 31, 2005. These results have been extrapolated to March 31, 2006. An updated actuarial valuation will be done at least every three years.

The Board has adopted the recommendations of Section 3461 of the CICA Handbook. The following is required for disclosure purposes:

8. **Pension obligations (cont'd)**	2006	2005
Components of Net Periodic Pension Cost		
Current service cost	$ **14,866**	$ 19,373
Interest cost	**12,591**	14,982
Actuarial loss (gain)	**27,425**	(59,707)
Costs arising in the year	**54,882**	(25,352)
Differences between costs arising in the period and costs recognized in the period in respect of:		
Actuarial loss (gain)	**(32,451)**	59,707
Net periodic pension cost recognized	$ **22,431**	$ 34,355
Weighted-Average Assumptions for Expense		
Discount rate	**6.00 %**	6.25 %
Rate of compensation increase	**3.50 %**	3.50 %
Weighted-Average Assumptions for Disclosure		
Discount rate	**5.25 %**	6.00 %
Rate of compensation increase	**3.50 %**	3.50 %
Change in Accrued Benefit Obligation		
Accrued benefit obligation at the end of the prior year	$ **194,991**	$ 220,343
Current service cost	**14,866**	19,373
Interest cost	**12,591**	14,982
Actuarial loss (gain)	**27,425**	(59,707)
Accrued benefit obligation at the end of the year	$ **249,873**	$ 194,991
Reconciliation of Funded Status to Accrued Benefit Liability		
Deficit at end of year (per above)	$ **249,873**	$ 194,991
Unamortized net actuarial gain	**27,256**	59,707
Accrued benefit liability	$ **277,129**	$ 254,698

8. Pension obligations (cont'd)

(b) Multiemployer Defined Benefit Pension Plan

The Board contributes to a pension plan under the Public Service Superannuation Act administered by the Province of Nova Scotia. The Board matches employees' contributions calculated as follows: 6.4% (2005 - 6.4%) on that part of their salary that is equal to or less than the "Year's Maximum Pensionable Earnings" (YMPE) under the Canada Pension Plan and 8% (2005 - 8%) on the part of their salary that is in excess of the YMPE. The Board has recognized contributions of $172,949 in 2006 (2005 - $182,787). There is no further liability with respect to past service at March 31, 2006.

9. Other retirement obligations

The Canada - Nova Scotia Offshore Petroleum Board provides other retirement benefits to its employees by participating in the Province of Nova Scotia's post-retirement health insurance program. The non-pension post retirement benefits are funded on a pay-as-you-go basis. The Board funds on a cash basis as contributions are made. No assets have been segregated and restricted to provide the non-pension post retirement benefits.

An actuarial valuation was prepared for the first time for the fiscal year ended March 31, 2006. The valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, medical inflation rates, wage and salary increases, and employee turnover and mortality. The assumptions used reflect the Board's best estimates.

The Board has adopted the recommendations of Section 3461 of the CICA Handbook and has accounted for the nonpension retirement obligations retroactively. This change has resulted in an increase in the 2005 other retirement obligations of $244,300 with a corresponding decrease in deferred revenue. Comparative figures for the disclosures have not been disclosed as the information was not readily available:

	2006
Components of Net Periodic Benefit Cost	
Current service cost (employer portion)	$ 26,500
Interest cost	15,571
Actuarial loss (gain)	29,329
Costs arising in the period	71,400
Differences between costs arising in the period and costs recognized in the period in respect of:	
Actuarial loss (gain)	(29,329)
Net periodic benefit cost recognized	$ 42,071
Weighted-Average Assumptions for Expense	
Discount rate	5.75 %
Initial weighted average health care trend rate	10.00 %
Ultimate weighted average health care trend rate	5.00 %
Year ultimate rate reached	2010

9. Other retirement obligations (cont'd)

Weighted-Average Assumptions for Disclosure	
Discount rate	5.25 %
Initial weighted average health care trend rate	10.00 %
Ultimate weighted average health care trend rate	5.00 %
Year ultimate rate reached	2010

Change in Accrued Benefit Obligation	
Accrued benefit obligation at the end of the prior year	$ 244,300
Current service cost (employer portion)	26,500
Interest cost	15,571
Actuarial loss (gain)	29,329
Accrued benefit obligation at the end of the year	$ 315,700

Reconciliation of Funded Status to Accrued Benefit Asset (Liability)	
Deficit at the end of year	$ 315,700
Unamortized net actuarial gain	(29,329)
Accrued benefit liability	$ 286,371

10. Net change in non-cash working capital balances related to operations

	2006	2005 (restated)
Increase (decrease) in cash from changes in:		
Receivables	$ (1,246,969)	$ (78,701)
Prepaid expenses	9,056	(33,459)
Payables and accruals	65,193	(151,013)
Payable to government	321,497	(458,628)
Deferred revenue	1,112,394	(16,618)
	$ 261,171	$ (738,419)

11. Commitments

The Board has entered into various lease agreements for premises. The approximate payments required over the next three years are as follows:

2007	$ 393,432
2008	$ 393,432
2009	$ 26,393

12. Financial instruments

(a) Fair value of financial instruments

Financial instruments of the Board consist mainly of cash, accounts receivable, accounts payable and accrued liabilities. The carrying values of these financial assets and financial liabilities approximate their fair values given their short-term nature.

(b) Credit risk management

The Board is exposed to credit risk on the accounts receivable from its clients. In order to reduce its credit risk, the Board has adopted credit policies which include the analysis of the financial position of its clients and the regular review of their credit limits. The Board does not have a significant exposure to any individual client.

13. Accounting change

During the year the Board retroactively changed the method of accounting for post retirement medical benefits to comply with Section 3461 of the CICA Handbook. Post retirement medical plan premium contributions were not previously accrued. For the year ended March 31, 2006 an actuarial estimate was prepared of the accrued benefit obligation and related costs. As a result of retroactively adopting Section 3461, the following changes have been made to the comparative figures:

	2005
Increase in other retirement obligations	$ 244,300
Decrease in deferred operating grants	$ 105,848
Increase in receivables	$ 138,452

14. Comparative figures

In some cases, the comparative figures have been restated to conform with the current year's presentation.

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